

# **0790 - Arkansas Department Of Economic Development**

## **Annual Progress Report**

### **for the reporting period July 1, 2003 - June 30, 2004**

#### **Section I. Agency Update and Assessment**

##### **1. Emerging Issues at the Federal (National) or State level affecting the agency.**

At the state level, the budget reductions imposed due to revenue shortfalls resulted in the closure of two of ADED's foreign offices (Brussels and Kuala Lumpur). Also, the budget reductions left the agency with fewer infrastructure dollars than it has had in more than 20 years.

##### **2. Status of any new initiatives funded from General Revenue or General Improvement funds in the 2003 Legislative Sessions and other changes made through General Legislation.**

The Consolidated Incentive Act of 2003 (Act 182) realigned and changed our incentive programs in an effort to make the state a more competitive location for business. Although there may be a few areas where the legislation needs to be "tweaked" to correct oversights or errors, overall, we have had a very positive response to these incentive changes. Our business development section feels as though they are in a position to offer a competitive package in almost every instance.

##### **3. Discuss significant factors internal and external to the agency affecting agency performance.**

As we noted in our annual Act 1282 report last May, the state of our educational system is the biggest external factor affecting agency performance. The correlation between education and wages is readily apparent. An extensive survey conducted in March, 2002 jointly by the Bureau of Labor Statistics and the Bureau of the Census shows that, on the national level, the difference between the wages of a high school graduate and a college graduate is almost two to one in favor of the college graduate (\$28,816 for a high school graduate versus \$52,462 for a college graduate). In order to attract and support the type jobs we want, we need a higher level of academic achievement.

##### **4. Provide comments on the usefulness and reliability of performance measures.**

There are several measures we'd like to change or eliminate and will propose doing so at the next opportunity. Before entering this process, we consulted several states that have done PBB for a number of years. Their consistent message was to minimize the number of measures to no more than five or six. We have 23 measures and will ask, at the appropriate time that this number be reduced to something more manageable and reflective of agency performance.

##### **5. Discuss significant uses of line item flexibility in this report period (agencies operating under Performance-Based Appropriations only).**

The Department was able to meet two very critical needs because of the line item flexibility. First, the Department was able to resolve all debts and close the European Office by using salary savings throughout the Department to pay legal obligations demanded because of international law (Belgian) which we could not otherwise have done in a timely fashion. Secondly, the Department was able to replace the servers in our computer system by using savings in other operational areas at year end. Without the line item flexibility, the Department would not have been able to do this because of the need to delay these purchases until we were certain that such savings in other areas would be realized completely. In addition, the Department used this authority to cover the expense of international business recruitment and capital investment efforts in Arkansas through the use of savings in various historical "line items".

**Section II. Performance Indicators****Program 1: Business Development**

**Goal 1:** To stimulate job creation, retention and capital investment in the State of Arkansas.

**Objective 1:** Work with strategic partners to assist existing business and industry with their needs and to actively recruit new business and industry development.

Measure Number	Performance Indicators	Annual Target	FY04 Actual	Comments
1	Average salaries of new jobs proposed	5% above state average	\$12.40	State average is \$13.71.
2	Average cost/benefit ratio for projects involving ADED incentives	\$2.00 return for \$1.00 invested	\$2.06	
3	Number of site visits to existing businesses and industries	1500	1552	
4	Number of job opportunities announced by all businesses in Arkansas seeking assistance from the Arkansas Department of Economic Development (using a three year moving average)	6901	3683	
5	Total amount of new capital investment announced in Arkansas for all businesses seeking assistance from the Arkansas Department of Economic Development. (using a three year moving average)	\$834,000,000	\$742,567,025	
6	Funding committed to Arkansas businesses (includes funds from federal & state sources and tax credits). (using a three year moving average)	\$67,000,000	\$61,736,301	
7	Number of trade shows and trade missions attended which facilitate promotion of Arkansas	6	6	
8	Number of marketing assists provided to Arkansas businesses. using a three year moving average)	1,000	194,592	
9	Number of businesses receiving international trade assistance from the Arkansas Department of Economic Development.	76	248	

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**Program 1: Business Development**

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<u>Measure Number</u>	<u>Performance Indicators</u>	<u>Annual Target</u>	<u>FY04 Actual</u>	<u>Comments</u>
10	Number of small or minority businesses receiving assistance from the Arkansas Department of Economic Development	500	1169	

**Comments on performance matters related to Objective 1:**

We failed to meet projected targets for measures 1, 4, 5, and 6 - all of which are closely related to the health of the economy.

**Program 2:** Community Development Program

**Goal 1:** To support and increase the development capacity of Arkansas communities.

**Objective 1:** Work with strategic partners to assist communities in developing and obtaining the necessary resources to identify and solve local development challenges.

## Measure

<u>Number</u>	<u>Performance Indicators</u>	<u>Annual Target</u>	<u>FY04 Actual</u>	<u>Comments</u>
1	Increase in the number of communities participating in ACE process	119	123	
2	Increase in the number of communities that demonstrate the use of a strategic planning process to evaluate needs prior to submitting a CDBG grant request.	6	6	
3	Percentage of CDBG funds distributed to locations with a population of 5,000 or less	75%	66%	
4	Percentage of CDBG projects distributed through need based funding formulas	70%	100%	
5	Percentage of CDBG projects identified as priority needs within the consolidated plan submitted to HUD that were funded	100%	100%	
6	Number of Energy Office outreach activities completed per year, including educational seminars, demonstrations, etc	27	84	

**Comments on performance matters related to Objective 1:**

We failed to meet the projected target for measure 3. This measure needs to be eliminated. It may be at odds with the HUD approved Consolidated Plan and could be subject to a federal audit finding if we were to deviate from the Consolidated Plan in order to meet this measure.

**Program 3: Administration and Support Program**

**Goal 1:** Maximize the utilization of human and fiscal resources.

**Objective 1:** Provide administrative direction and support to insure that department programs meet their objectives and performance targets.

Measure Number	Performance Indicators	Annual Target	FY04 Actual	Comments
1	Percentage of agency performance targets met	100%	71%	
2	Percentage of staff and budget in Central Administration (Objective 1 of the Administration and Support Program) compared to total agency budget	20%	18%	
3	Agency information technology budget as a percentage of total agency budget	5%	0.85%	
4	Number of legacy information systems maintained by agency staff or maintained through contractual services	0	0	
5	Number of prior year audit findings repeated in subsequent audit	0	0	

**Comments on performance matters related to Objective 1:**

Four measures were not met due largely to economic conditions. One CDBG measure of funds to location of less than 5,000 was not met and is not a good measure (see Comments on Community Development measures). The other measure not met was the 100% of performance targets met. We met the advertising measure but are proposing that this measure be eliminated (see Comments on next page).

**Program 3: Administration and Support Program**

**Goal 1:** Maximize the utilization of human and fiscal resources.

**Objective 2:** Provide for marketing, advertising and general operations support and overhead cost not otherwise included in the Administration and Support Program or treated as a direct cost in other programs.

Measure

<u>Number</u>	<u>Performance Indicators</u>	<u>Annual Target</u>	<u>FY04 Actual</u>	<u>Comments</u>
1	Advertising funds spent in support of the Business Development goals	85%	89%	
2	Advertising funds spent in support of the Community Development goals	15%	11%	

**Comments on performance matters related to Objective 2:**

This measure needs to be eliminated. Almost all advertising funds are spent in promotion of the State of Arkansas to in-state and out-of-state companies to locate or expand in Arkansas. All business development occurs within Arkansas communities.